

## Message Text

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67

ACTION EUR-25

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-07 H-03 INR-10 L-03

NSAE-00 NSC-10 PA-04 RSC-01 PRS-01 SPC-03 SS-20

USIA-15 ACDA-19 IO-14 AID-20 COME-00 EB-11 FRB-02

TRSE-00 XMB-07 OPIC-12 CIEP-02 LAB-06 SIL-01 OMB-01

DRC-01 /199 W

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R 291615Z NOV 73

FM AMEMBASSY BERN

TO SECSTATE WASHDC 8463

INFO AMCONSUL ZURICH

UNCLAS BERN 4843

E.O. 11652: N/A

TAGS: ECON, EFIN, SZ

SUBJECT: SWISS DECEMBER 2 REFERENDUM ON ANTI-INFLATIONARY DECREES

### 1. SUMMARY

IN TRADITION SWISS PARTICIPATORY DEMOCRACY ELECTORATE WILL VOTE DECEMBER 2 ON SWISS GOVERNMENT ANTI-INFLATION PROGRAM ADOPTED ONE YEAR AGO. AMONG ISSUES VOTER MAY CONSIDER ARE SEEMING INEFFECTIVENESS OF PROGRAM IN LOWERING RATE OF DOMESTIC PRICE INCREASES, RECOGNIZED NEED OF SWITZERLAND TO HAVE MODERN FISCAL POLICY AND STABILIZATION TOOLS, AND CONSEQUENCES IN TERMS RELIANCE ON MONETARY POLICY TIGHTNESS IF KEY CREDIT AND CONSTRUCTION DECREES DEFEATED. MOST IF NOT ALL DECREES LIKELY SECURE APPROVAL BUT SWISS VOTER IN REFERENDA OFTEN UNPREDICTABLE.

2. WITH PUBLIC REFERENDUM ON GOVERNMENT'S DECEMBER 1972 ANTI-INFLATIONARY PROGRAM ONLY THREE DAYS AWAY, MOST OBSERVERS ARE LESS OPTIMISTIC THAN SEVERAL MONTHS AGO THAT ALL FOUR DECREES WILL BE APPROVED. MOST RESPONSIBLE  
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NEWSPAPERS AND NATIONAL INTEREST GROUPS AGREE THAT FOUR

DECREEES SHOULD BE APPROVED, BUT DECREEES ON PRICES/WAGES/ PROFITS AND CONSTRUCTION WILL HAVE TOUGHER SLEDDING. (THE FOUR DECREEES WILL BE VOTED UPON SEPARATELY AND EACH MUST RECEIVE MAJORITY OF POPULAR VOTE IN NATION AS WHOLE AS WELL AS POPULAR VOTE IN MAJORITY OF CANTONS TO CONTINUE IN FORCE.)

3. DECREE ON CONTROL OF PRICES/WAGES/PROFITS HAS RECEIVED MOST CRITICISM FROM BOTH LABOR AND BUSINESS GROUPS, EVEN THOUGH ITS REAL IMPACT TO DATE HAS PROBABLY BEEN SMALL. NO DIRECT ACTION HAS BEEN TAKEN BY GOVERNMENT TO CONTROL WAGES OR PROFITS, AND WHILE PRICE-CONTROL EFFORT HAS RECEIVED CONSIDERABLE PUBLICITY, INDICES FOR OCTOBER SHOW ANNUAL RATE OF INCREASE OF 9.5 PERCENT FOR CONSUMER PRICES AND 12.8 PERCENT FOR WHOLESALE PRICES.

4. DECREE LIMITING ACTIVITY IN OVERHEATED CONSTRUCTION SECTOR HAS BEEN ATTACKED BY VARIOUS CONTRACTOR GROUPS AND SOME OF THE LESS PROSPEROUS CANTONS. EFFORTS TO HOLD DOWN MORTGAGE RATES AND RELAXATION OF BAN ON OTHER THAN LUXURY TYPE CONSTRUCTION HAVE, HOWEVER, MINIMIZED GENERAL PUBLIC DISSATISFACTION.

5. SWISS BANKERS' ASSOCIATION SUPPORTS APPROVAL OF DECREE RESTRICTING CREDIT AND IT SHOULD PASS.

6. DECREE WHICH REDUCED RATES OF AMORTIZATION FOR TAX PURPOSES HAS RECEIVED LITTLE PUBLIC COMMENT.

7. MANY CRITICS OF ANTI-INFLATIONARY PROGRAM CLAIM THAT IT IS INEFFECTIVE AND, THEREFORE, SHOULD BE ABOLISHED. GOVERNMENT CONTENDS THAT WITHOUT IT THE RATE OF PRICE INCREASES WOULD BE EVEN HIGHER. QUALIFIED NEUTRAL OBSERVERS GENERALLY CONCLUDE THAT PROGRAM HAS BEEN MODERATELY SUCCESSFUL IN REDUCING DOMESTIC DEMAND. INVESTMENT IN CONSTRUCTION SECTOR IS DOWN. RETAIL TRADE VOLUME IN PAST SEVERAL MONTHS HAS BEEN RUNNING BELOW LAST YEAR'S HIGH LEVEL. BUT OTHER VISIBLE EFFECTS OF GOVERNMENT'S EFFORTS ARE HARD TO FIND. TIGHT LABOR SITUATION CONTRIBUTES SIGNIFICANTLY TO BOTH DOMESTIC DEMAND AND COSTS BUT FOR POLITICAL REASONS  
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GOVERNMENT UNABLE ALLOW FURTHER INFLUX FOREIGN LABOR. EXTRAORDINARY DEMAND FOR SWISS EXPORTS AND CONTINUED HIGH RISE IN COST OF IMPORTS ALSO HAS IMPORTANT RESULT OF REDUCING GOVERNMENT'S ABILITY AND SCOPE OF ACTION IN FIGHTING INFLATION.

8. WITHOUT KEY CREDIT AND CONSTRUCTION DECREEES, GOVERNMENT WOULD BE FORCED RELY ON HIGH INTEREST RATES POLICY TO LIMIT

DOMESTIC DEMAND. RECENT TIGHTENING OF LIQUIDITY BY SWISS  
NATIONAL BANK MAY HAVE BEEN DONE, AT LEAST IN PART, TO GIVE  
ECONOMY AND ELECTORATE A TASTE OF WHAT MIGHT RESULT IF  
DECREES NOT APPROVED DECEMBER 2.  
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